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May 15, 2007

AGENDA ITEM 4

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2008 Basic Plan Benefit Design Proposal
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends the Board approve the following benefit design changes beginning January 1, 2008:

A. For Blue Shield of California (Blue Shield), Kaiser and Western Health Advantage (WHA) basic plans:

1. Increase office visit co-payments from \$10 to \$15 and waive co-payments for preventive care (*periodic health exams, periodic maternity care, well baby visits, allergy testing and treatment, immunizations, hearing evaluations, and pre/post-natal care*);
2. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while standardizing the urgent care co-payment to \$15 (currently: \$25 for Blue Shield, \$10 for Kaiser, and \$20 for WHA);
3. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order (Kaiser from \$5/15 to \$5/**20** for up to a 100-day supply); and,
4. Standardize out-of-pocket maximums to \$1,500 for individuals and \$3,000 for families, excluding pharmacy.

B. For PERS Choice basic plan:

1. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while maintaining a \$20 urgent care co-payment; and,
2. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order.

IV. BACKGROUND:

At the April 17, 2007 Health Benefits Committee (HBC) meeting, staff recommended a set of benefit design changes for CalPERS HMO and PERS Choice **basic** plans to encourage members to seek care in the most clinically beneficial and cost-effective setting, to reduce overall long-term premium increases without causing members to forgo needed care, to provide members with incentives to make healthy lifestyle choices, to maintain CalPERS risk pool, and to ensure competitiveness in the health benefits marketplace. The HBC deferred this item to its May 2007 meeting. Since then, staff has conducted additional research to address HBC members' and constituents' concerns.

The April agenda item described the policy rationale supporting each recommendation, total program savings, premium impacts of each benefit design change, and the co-payment breakeven point for members to realize a premium savings when the members contribute 20 percent toward their premiums. In addition, the April agenda item provided information on average member use of each service and the availability and accessibility of urgent care facilities. We have attached the April agenda item for reference. (Attachment 1)

As a recap, we include two charts in this agenda item. Chart I summarizes the premium impact of the recommended benefit design changes. Chart II presents the total premium savings, by plan, had the changes been in effect in 2007.

Chart I - Premium Impact of Recommended Benefit Design*:

Plan	% Premium Decrease				
	Non-preventive Care Only	Non-Preventive & Free Preventive Care	Emergency Room & Urgent Care	Pharmacy Retail	Pharmacy Mail Order
Blue Shield	-1.39%	-1.10%	-0.28%	-0.92%	-0.15%
Kaiser	-1.19%	-0.71%	-0.13%	-0.44%	Not Applied
WHA	-1.70%	-1.12%	-0.42%	-0.65%	-0.47%
PERS Choice	No Change		-0.10%	-0.16%	-0.69%

* Estimated by CalPERS health plans.

Chart II - Total Estimated Premium Savings (Based on 2007 Premiums):

Basic Plan	2007 Annual Benefit Design Options Savings*			
	Office Visit (with free preventive care)	Emergency Room and Urgent Care	Pharmacy	Total Savings
Blue Shield	\$16,265,002	\$4,140,182	\$15,821,411	\$36,226,596
Kaiser	\$10,488,188	\$1,920,372	\$6,499,722	\$18,908,283
WHA	\$929,869	\$348,701	\$929,869	\$2,208,438
PERS Choice	No Change	\$917,668	\$7,800,178	\$8,717,846
Total Savings	\$27,683,059	\$7,326,924	\$31,051,180	\$66,061,163

* Rounding affects totals.

This agenda item will present additional information requested by the HBC and constituent representatives, including:

- *employer savings* based on a range of contribution percentage,
- an assessment of *family premium savings*, by plan, for both state and public agency members (applying 5 different employer contribution percentages),
- an *impact analysis using a 20 percent employer contribution* and how it affects savings on family premiums, and
- an assessment of the *value of the proposed benefit design changes* for both state and public agency members.

All the analyses that follow apply the proposed benefit design changes to 2007 premium rates.

VII. ANALYSIS:

Employer savings

Currently, approximately 60 percent of CalPERS members are state employees and 40 percent are public agency employees. Staff applied these percentages to the overall savings of \$66 million to determine the state and public agency program savings split. As a result, as shown in Chart III, of the overall savings,

the state represents **\$39.6 million** and for public agencies, **\$26.4 million**. To calculate the employer portion of these savings, staff used the 80-80 employer contribution formula for the state, and applied a range of employer contributions, from 20 percent to 80 percent, for public agencies.

Chart III – Employer Savings:

Total Savings ^{1,2}	\$66,061,163					
Estimated Benefit Design Proposal Savings for Employers						
	State (60% of CalPERS health benefits program) ³	Public Agencies (40% of CalPERS health benefits program) ³				
Overall Estimated Savings	\$39,636,698	\$26,424,465				
Employer Contribution	80%	20%	40%	50%	60%	80%
Office Visit (with free preventive care)	\$13,287,868	\$2,214,645	\$4,429,289	\$5,536,612	\$6,643,934	\$8,858,579
Emergency Room and Urgent Care	\$3,516,923	\$586,154	\$1,172,308	\$1,465,385	\$1,758,462	\$2,344,616
Pharmacy	\$14,904,566	\$2,484,094	\$4,968,189	\$6,210,236	\$7,452,283	\$9,936,378
Estimated Employers Total Savings ⁴	\$31,709,358	\$5,284,893	\$10,569,786	\$13,212,233	\$15,854,679	\$21,139,572

¹ Staff estimates savings based on CalPERS 2007 Expenditures Basic Report.

² Total savings includes only staff recommendations.

³ The state employers represent approximately 60% of CalPERS health benefits program while the public agency employers represent approximately 40%.

⁴ Staff calculates employer estimated total savings based on 80% employer contribution toward premiums for the state, and 20%/40%/50%/60%/80% employer contribution toward premiums for public agency employers.

As Chart III shows, the state savings would have been **\$31.7 million**. For public agencies, the savings would have ranged from **\$5.3 million** to **\$21.1 million**, collectively, depending on the level of employer contribution.

Employee Premium Savings, Based on Family Premiums

In the April agenda item, we included an analysis of family premium savings, by plan, assuming the state's 80-80 employer contribution. For this agenda item, because public agency employer contributions vary, we expanded our analysis to include family premium savings across a range of employer contributions.

Chart IV presents family premium savings, by plan, for the state, and for public agency members, applying 5 different employer contribution percentages.

Chart IV – Family Premium Savings:

2007 Annual Total Family Premium Savings: All Benefit Design Changes Applied					
Basic Plan		Blue Shield	Kaiser	WHA	PERS Choice
State	State 80-80	\$74.94	\$25.40	\$47.95	\$33.37
Public Agency Employer Contribution %	20%	\$266.69	\$128.33	\$262.82	\$106.86
	40%	\$200.02	\$96.25	\$197.11	\$80.15
	50%	\$166.68	\$80.21	\$164.26	\$66.79
	60%	\$133.35	\$64.17	\$131.41	\$53.43
	80%	\$66.67	\$32.08	\$65.70	\$26.72

As Chart IV displays, a 20 percent public agency employer contribution translates to an annual family premium savings, ranging from **\$107** to as high as **\$267**, depending on the plan.

Attachment 2 presents more detail on premium savings for members by type of subscriber (i.e. single, two-party, and family).

Impact Analysis, Based on Family Premium

In the April agenda item, we included an impact analysis for each of the benefit design changes using the state 80-80 employer contribution. For this agenda item, we revised the impact analysis using a 20 percent public agency employer contribution to display its effect on family premium savings.

A. HMO Basic plans only: Office Visit Co-payment from \$10 to \$15 and No Preventive Care Co-payment

Chart V - Impact Analysis for:
\$15 Office Visit Co-payment and No Co-payment for Preventive Care

	% Premium Impact	2007 Total Program Savings*	2007 Annual Family Premium Savings **	Service Breakeven Point	Average # Non- Preventive Services per Member
Blue Shield	-1.10%	\$16,265,002	\$119.74	23.95	4.46
Kaiser	-0.71%	\$10,488,188	\$71.19	14.24	
WHA	-1.12%	\$929,869	\$110.66	22.13	
Employer Savings		\$22,146,447			

* Based on CalPERS 2007 Expenditures Basic Report.

** Total employee savings if all members received a 20% employer contribution toward premiums; based on family premium.

As Chart V shows, if public agency members contribute 80 percent toward their family premium, member savings would range from **\$71 to \$120** annually, depending on the plan. Furthermore, families of public agency members would realize these savings until their non-preventive office visits exceeded **23** for Blue Shield, **14** for Kaiser and **22** for WHA. These numbers significantly exceed the average number of non-preventive office visits (based on our 2005 member utilization data), and would be in addition to **free** preventive care visits.

Preventive care includes: periodic health exams and associated routine tests, based on age and standard protocol; periodic maternity care; pre-/post-natal care; well baby visits; allergy testing and treatment; immunizations; and, hearing evaluations.

B. HMO Basic plans only: Standardization of out-of-pocket maximums to \$1,500 for individuals and \$3,000 for families, excluding pharmacy

As staff presented in April, there would be no impact on premium for adding an out-of-pocket maximum to the Blue Shield HMO **basic plan**.

C. Emergency Room and Urgent Care Co-payment Re-Structure

1. HMO Basic plans and PERS Choice Basic plan only:

- **Emergency Room Co-payment from \$50 to \$75 (waived if admitted)**

2. HMO basic plans only:

- **Standardize Urgent Care Co-payment at \$15 (currently: \$25 for Blue Shield, \$10 for Kaiser, and \$20 for WHA)**

3. PERS Choice Basic plan only:

- **Maintain Urgent Care Co-payment of \$20**

Chart VI - Impact Analysis for:
\$75 Emergency Room (waived if admitted) &
\$15 Urgent Care Co-payment for HMO (\$20 PERS Choice)

	% Premium Impact	2007 Total Program Savings*	2007 Annual Family Premium Savings **
Blue Shield	-0.28%	\$4,140,182	\$30.48
Kaiser	-0.13%	\$1,920,372	\$13.03
WHA	-0.42%	\$348,701	\$41.50
PERS Choice	-0.10%	\$917,668	\$11.25
Employer Savings		\$5,861,539	

* Based on CalPERS 2007 Expenditures Basic Report.

** Total employee savings if all members received a 20% employer contribution toward premiums; based on family premium.

As illustrated in Chart VI, if public agency members contribute 80 percent toward their family premium, member savings would range from **\$12** to **\$42** annually, depending on the plan. Families of public agency members would have realized these savings, depending upon their plan, if they either did not visit the emergency room or they only visited once. Our current benefit design waives the emergency room co-payment if the patient's condition requires hospitalization. Therefore, *only members who visit the emergency room without being admitted incur the co-payment.*

In 2005, nine percent of our members visited the emergency room without being admitted to the hospital. Thus, ninety-one percent of our members would have realized savings had CalPERS had this change in place. In addition, Blue Shield and WHA members will benefit from the \$15 urgent care co-payment standardization because the current charge is \$25 and \$20, respectively.

**D. Blue Shield, WHA and PERS Choice Basic plans only: Pharmacy Co-payment from \$5/15/45 to \$5/20/45 for a 30-day supply at Retail & from \$10/25/75 to \$10/40/90 for a 90-day supply at Mail Order
Kaiser HMO Basic plan: from \$5/15 to \$5/20 for up to a 100-day supply**

Chart VII - Impact Analysis for:
\$5/**20**/45 Retail & \$10/**40/90** Mail Order*

	Service	% Premium Impact	2007 Total Program Savings**	2007 Annual Family Premium Savings ***	Service Breakeven Point	Average # Services per Member
Blue Shield	Retail Brand:	-0.92%	\$13,603,456	\$100.15	20.03	2.65
	Mail Order Brand & Non-Preferred:	-0.15%	\$2,217,955	\$16.33	1.09	0.30
Kaiser	Retail Brand:	-0.44%	\$6,499,722	\$44.12	8.82	1.08
WHA	Retail Brand:	-0.65%	\$539,656	\$64.22	12.84	NA
	Mail Order Brand & Non-Preferred:	-0.47%	\$390,213	\$46.44	3.10	NA
PERS Choice	Retail Brand:	-0.16%	\$1,468,269	\$18.00	3.60	2.67
	Mail Order Brand & Non-Preferred:	-0.69%	\$6,331,909	\$77.62	5.17	1.66
Employer Savings			\$24,840,944			

* Maintain \$30 at retail & \$45 at mail order for plan -evaluated medically necessary non-preferred brand drugs.

** Based on CalPERS 2007 Expenditures Basic Report.

*** Total employee savings if all members received a 20% employer contribution toward premiums; based on family premium.

As Chart VII demonstrates, if public agency members contribute 80 percent toward their family premium, annual member savings would range from **\$44** to **\$117**, depending on the plan. (Note that the pharmacy premium savings for Blue Shield, WHA and PERS Choice have two components: retail and mail order.) Families of public agency members would realize these savings until their service level exceeds their breakeven point; for Blue Shield family members, as an example, that translates to 20 retail brand prescriptions plus one mail order brand or non-preferred prescription.

The proposed pharmacy co-payment structure would encourage increases in generic drug utilization. Based on Milliman's research, Milliman believes that an increase in the spread between the generic and brand co-payment from \$10 (\$5 generic versus \$15 brand) to \$15 (\$5 generic versus \$20 brand) will increase CalPERS' generic use by 1.5-2 percent.

Value to State and Public Agency Employees

Staff compiled two additional documents, with supporting charts, which provide an assessment of the value of the proposed benefit design for state and public agency employees. (See Attachment 3 for public agency employees and Attachment 4 for state employees.)

In Attachment 3, the document "*What is the Value of the Proposed Basic Plan Benefit Design to CalPERS 'Public Agency' Members?*" describes how our proposed **basic** plan benefit design would result in annual premium savings and benefits to the **public agency member**, by type of subscriber, assuming the employee receives a 20 percent employer contribution toward his/her premium. Attachment 3 also includes fact sheets for each health plan, which display the premium impact and annual member savings for all three types of subscribers (i.e. single, two-party, and family).

Attachment 4 contains the same information as Attachment 3, but is for state employees, based on the state 80-80 employer premium contribution formula.

As Attachments 3 and 4 clearly demonstrate, *the higher the proportion an employee contributes toward his/her premium:*

- *the greater the premium savings, and*
- *the more services available before exceeding premium savings.*

Finally, in response to additional questions concerning a range of topics, staff includes a document entitled "Benefit Design Questions and Answers" (Attachment 5) to provide information for the following topics:

- Members' emergency room use
- Adjusting emergency room co-payments for counties without urgent care facilities
- Urgent care availability and alternatives
- Substitution for a brand drug that has no generic equivalent
- Effect of increasing brand drug co-payments on generic utilization
- Definition and scope of preventive care

VIII. STAFF RECOMMENDATION:

In summary, our 2008 proposed benefit design package would:

- Remove financial barrier to seek preventive care,
- Increase the incentive to use urgent care facilities for non life-threatening situations,
- Alleviate non-emergency workload in emergency rooms, which would increase accessibility for life-threatening emergencies,
- Increase financial incentives to use generic drugs, and
- Ensure consistency of financial protection across all HMO basic plans.

In addition, had the proposed changes been in place for 2007:

- The total premium savings from all benefit design changes would have been approximately **\$66 million**,
- The state savings would have been **\$31.7 million**.
- The savings would have ranged from **\$5.3 million** to **\$21.1 million**, for public agencies collectively, depending on the level of employer contribution,
- A “state” employee, who receives an employer contribution based on the state 80-80 formula, would have an annual family premium savings, ranging from **\$34** to **\$75**, depending on the plan, and
- A “public agency” employee, who receives a 20 percent employer contribution, would have an annual family premium savings, ranging from **\$107** to as high as **\$267**, depending on the plan.

Therefore, staff recommends the Board approve the following benefit design changes, effective January 1, 2008:

1. Increase office visit co-payments from \$10 to \$15 and waive co-payments for preventive care (periodic health exams, obstetrics, well baby visits, allergy testing and treatment, immunizations, hearing evaluations, and pre/post-natal care);
2. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while standardizing the urgent care co-payment to \$15;
3. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order (Kaiser \$5/20 for up to a 100-day supply); and,
4. Standardize out-of-pocket maximums to \$1,500 for individuals and \$3,000 for families, excluding pharmacy.

For PERS Choice **basic plan**:

1. Increase emergency room co-payments from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while maintaining a \$20 urgent care co-payment; and,
2. Change pharmacy co-payments from \$5/15/45 to \$5/**20**/45 for a 30-day supply at retail and from \$10/25/75 to \$10/**40/90** for a 90-day supply at mail order.

VIII. STRATEGIC PLAN:

This agenda item supports the Health Benefits Branch Three-Year Business Plan Goal to "develop and administer quality, sustainable health benefit programs that are responsive to and valued by members and employers."

IX. RESULTS/COSTS:

The "Analysis" section of this agenda item provides premium impact information. Total premium impact of all benefit design changes would have been \$66,061,163, had the proposed changes been in effect for 2007.

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Attachments